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The Conference Board

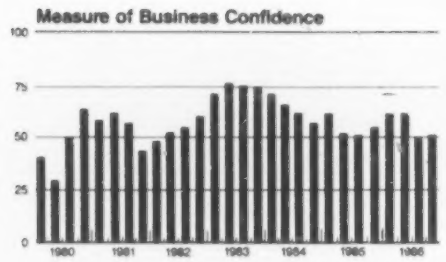
A Survey of Chief Executives

Business Executives' Expectations

A Quarterly Report from The Conference Board **Fourth Quarter 1986**

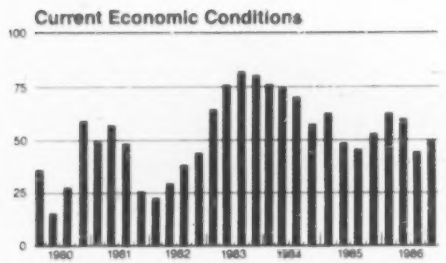
Business Confidence Index Remains Neutral

Executives remain sharply divided in their assessment of current and expected economic conditions. The Conference Board's *Measure of Business Confidence* increased to 51—from 50 in the third quarter—as improved sentiment about current economic conditions barely offset a slight decline in expectations for both the economy and the executives' own industries. These results suggest that most executives anticipate a continuation of recent economic stability well into 1987.



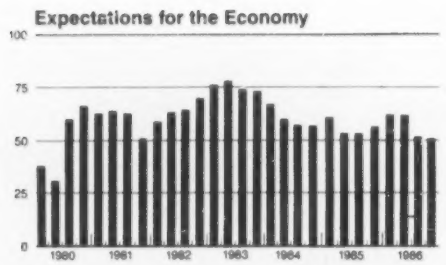
Current Economic Conditions Improved

The fourth-quarter rise in the *Current Conditions Index*—to 50 from 44 in the third quarter—reflects a halving (from 48% to 24%) in the percentage of respondents who felt that economic conditions had deteriorated compared with six months earlier. Led by the paper industry, nearly one-fourth of executives felt the economy had improved in the fourth quarter; about one-half noticed no change in economic activity. Current economic-conditions indexes declined in only 6 industries, most sharply in stone, clay, and glass and contract construction. Respondents reported notable improvement in several depressed industries, including apparel, nonelectrical equipment, and fabricated metals.



Expectations Differ Widely By Industry

Although more executives expect economic conditions to strengthen than to deteriorate (32% compared with 25%) in the first half of 1987, the *Business Expectations Index* declined slightly from 52 to 51. Executives in every manufacturing industry, except electrical machinery, expressed increased optimism. Greater bullishness in the manufacturing sector reflects renewed anticipation of stronger export markets, diminished foreign competitiveness in U.S. markets, and a stronger domestic economy. However, executives in most nonmanufacturing industries have become less bullish about the half-year ahead. Expectations indexes declined in 7 out of 10 sectors, advancing only in finance, insurance, and business services. Weakening expectations reflect concern about the restraining effects of tax reform, surging household indebtedness, and accelerated automobile purchases in late 1986.



Regional Expectations Vary Sharply

Survey respondents confirm widely divergent growth patterns among the various regions. In New England and the South Atlantic, well over 90% of executives report improved economic conditions in their states over the last six months. In the mining and energy-dominated West South Central and Mountain states, roughly three-fourths of respondents report worsened economic conditions compared to 6 months ago.

Executives in all regions (except the West South Central) anticipate greater economic stability or further economic improvement for their own states in the first half of 1987. Major concerns include lack of pro-business attitudes by state governments, price weakness or instability, uncertainty about the automobile industry, and the uncertain outlook for federal spending (particularly on national defense).

Steven Malin

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Table 1: ECONOMIC CONDITIONS IN YOUR STATE COMPARED WITH SIX MONTHS AGO

Census Regions	Substantially Better	Moderately Better	Same	Moderately Worse	Substantially Worse
New England	15%	30	50	5	0
Middle Atlantic	0%	42	32	23	3
South Atlantic	8%	50	33	8	0
East South Central	0%	60	20	20	0
East North Central	0%	10	40	46	4
West North Central	0%	0	61	33	6
West South Central	0%	4	14	54	29
Mountain	0%	0	29	71	0
Pacific	9%	36	27	27	0

Table 2: ECONOMIC CONDITIONS IN YOUR STATE SIX MONTHS AHEAD

Census Regions	Substantially Better	Moderately Better	Same	Moderately Worse	Substantially Worse
New England	0%	40	55	5	0
Middle Atlantic	3%	27	43	20	7
South Atlantic	0%	50	42	8	0
East South Central	0%	80	20	0	0
East North Central	2%	21	42	29	6
West North Central	0%	6	78	17	0
West South Central	0%	11	32	50	7
Mountain	0%	14	43	43	0
Pacific	0%	55	36	0	9

Table 3: BUSINESS EXECUTIVES' EXPECTATIONS

	1983		1984				1985				1986			
	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.	Feb.	May	Aug.	Nov.
MEASURE OF BUSINESS CONFIDENCE	75	74	70	65	61	57	61	52	51	55	61	61	50	51
1. Current Economic Conditions vs. 6 Months Ago	82	80	76	75	70	57	62	48	45	53	63	61	44	50
2. Expectations for Economy, 6 Months Ahead	74	73	67	60	57	57	61	53	53	56	62	62	52	51
3. Expectations for Own Industry, 6 Months Ahead	69	70	67	61	57	58	61	55	54	56	59	60	54	53
4. Current Conditions in Own Industry vs. 6 Months Ago	71	70	70	67	62	55	57	51	47	53	57	54	47	50

Table 4: OWN INDUSTRY INDEXES

	Current Conditions						Expectations for Next 6 Months					
	1985		1986				1985		1986			
	Aug.	Nov.	Feb.	May	Aug.	Nov.	Aug.	Nov.	Feb.	May	Aug.	Nov.
Manufacturing	41	49	55	52	45	50	53	55	60	59	52	55
Food	43	46	49	50	50	57	52	55	55	59	56	63
Textiles	40	67	72	72	65	60	46	56	54	58	48	58
Apparel	36	52	54	40	36	50	52	50	61	60	45	54
Paper	38	57	57	59	63	69	62	59	69	68	59	62
Printing, Publishing	50	46	59	48	38	37	59	63	63	58	61	62
Chemicals	45	47	60	63	55	54	59	55	66	66	58	62
Rubber	29	43	48	58	44	56	48	59	66	67	58	66
Lumber, Furniture	40	48	61	60	59	62	52	50	56	67	56	62
Stone, Clay, Glass	49	57	48	57	57	44	51	47	58	55	48	48
Primary Metals	39	46	54	48	33	37	55	54	57	53	41	46
Fabricated Metals	45	50	57	52	40	47	55	56	59	55	51	51
Nonelectrical Machinery	41	47	50	44	32	41	46	53	58	57	44	51
Electrical Machinery	31	48	59	56	51	52	54	61	65	64	62	57
Transportation Equipment	41	42	46	49	43	51	57	51	46	56	48	53
Instruments	39	52	54	52	47	53	45	63	64	55	56	64
Mining	38	41	41	24	38	43	53	47	54	53	53	48
Construction	51	53	42	44	40	29	49	45	43	42	54	31
Transportation	51	50	50	58	54	55	56	54	66	68	61	58
Electric, Gas Utilities	51	53	56	48	49	54	50	58	55	58	55	53
Wholesale Trade	42	47	58	54	44	52	52	57	59	58	55	48
Retail Trade	45	46	52	54	51	52	59	53	56	63	59	48
Banking	54	58	63	55	46	47	54	58	60	59	51	45
Other Finance	76	79	74	76	63	67	61	65	65	61	52	60
Insurance	63	60	68	68	56	55	62	62	64	71	57	58
Business Services	50	51	58	62	52	50	52	60	55	63	53	55

The **Measure of Business Confidence** is the average of the scores for Questions 1,2, and 3. There are five reply options for each question. A score for each question is determined by assigning the following values to the replies and calculating the average: Substantially Better—100; Moderately Better—75; Same—50; Moderately Worse—25; Substantially Worse—0. The score for each question, and the **Measure of Business Confidence**, thus can range from 0 to 100.

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